

ESSEX COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Essex Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b> <b>(After September 2006 Election)</b>		
Dennis Liljedahl	President	2006
Christy Johnson	Vice President	2007
Tim Johnson	Board Member	2006
Blake Jensen	Board Member	2007
Larry Young	Board Member	2008

<b>Board of Education</b> <b>(After September 2006 Election)</b>		
Tim Johnson	President	2009
Blake Jensen	Vice President	2007
Christy Johnson	Board Member	2007
Larry Young	Board Member	2008
Dennis Liljedahl	Board Member	2009

**School Officials**

William Crilly	Superintendent	2007
Gloria McComb	District Secretary/ Treasurer	2007
Sue Seitz	District Attorney	2007

**NOTLE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Essex Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Essex Community School District, Essex, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Essex Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 27, 2008 on our consideration of Essex Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We

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have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Essex Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2006 (which are not presented here in) and expressed unqualified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Nolte, Cornman & Johnson PC*  
NOLTE, CORNMAN & JOHNSON, P.C.

March 27, 2008

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Essex Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,188,790 in fiscal year 2006 to \$2,349,264 in fiscal year 2007, while General Fund expenditures increased from \$2,070,166 in fiscal 2006 to \$2,276,460 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$422,142 in fiscal 2006 to \$494,946 in fiscal 2007, a 17.25% increase from prior year.
- The increase in General Fund revenues was attributable to an increase in state aid revenues in fiscal 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- Overall, the District increased net assets in the governmental activities by \$288,731, and increased in the business-type activities by \$14,746, respectively.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Essex Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Essex Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Essex Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Essex Community School District Annual Financial Report**

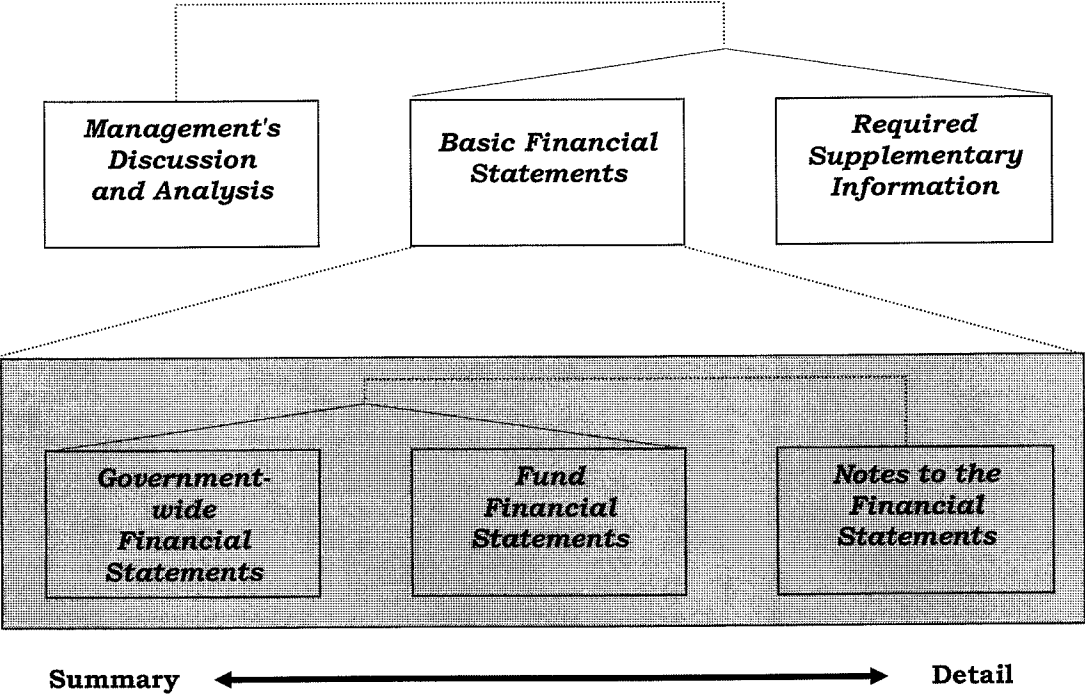


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**

***Major Features of the Government-Wide and Fund Financial Statements***

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.



The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 2,216,800	2,281,931	\$ 24,866	18,257	\$ 2,241,666	2,300,188	-2.54%
Capital assets	1,492,030	1,475,251	9,928	10,287	1,501,958	1,485,538	1.11%
Total assets	3,708,830	3,757,182	34,794	28,544	3,743,624	3,785,726	-1.11%
Long-term obligations	278,170	452,309	0	0	278,170	452,309	-38.50%
Other liabilities	1,425,261	1,588,205	2,090	10,586	1,427,351	1,598,791	-10.72%
Total liabilities	1,703,431	2,040,514	2,090	10,586	1,705,521	2,051,100	-16.85%
Net assets:							
Invested in capital assets, net of related debt	1,232,030	1,143,091	9,928	10,287	1,241,958	1,153,378	7.68%
Restricted	179,308	64,327	0	0	179,308	64,327	178.74%
Unrestricted	594,061	509,250	22,776	7,671	616,837	516,921	19.33%
Total net assets	\$ 2,005,399	1,716,668	\$ 32,704	17,958	\$ 2,038,103	1,734,626	17.50%

The District's combined net assets increased by 17.5% over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased 178.74% compared to prior year.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased 19.33% over the prior year. This was due to an increase in the general fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 314,025	283,004	\$ 63,132	65,141	377,157	348,145	8.33%
Operating grants and contributions and restricted interest	325,717	338,513	60,609	48,685	386,326	387,198	-0.23%
General revenues:							
Local tax	923,507	954,601	0	0	923,507	954,601	-3.26%
Local option sales and service tax	165,107	137,430	0	0	165,107	137,430	20.14%
Unrestricted state grants	1,057,140	931,377	0	0	1,057,140	931,377	13.50%
Other general revenues	59,295	53,189	653	376	59,948	53,565	11.92%
Transfers	(5,741)	0	0	0	(5,741)	0	-100.00%
Total revenues and transfers	<u>2,839,050</u>	<u>2,698,114</u>	<u>124,394</u>	<u>114,202</u>	<u>2,963,444</u>	<u>2,812,316</u>	<u>5.37%</u>
Program expenses:							
Governmental activities:							
Instructional	1,586,642	1,499,637	0	0	1,586,642	1,499,637	5.80%
Support services	791,773	706,686	0	0	791,773	706,686	12.04%
Non-instructional programs	0	0	109,648	111,325	109,648	111,325	-1.51%
Other expenses	171,904	251,658	0	0	171,904	251,658	-31.69%
Total expenses	<u>2,550,319</u>	<u>2,457,981</u>	<u>109,648</u>	<u>111,325</u>	<u>2,659,967</u>	<u>2,569,306</u>	<u>3.53%</u>
Change in net assets	288,731	240,133	14,746	2,877	303,477	243,010	24.88%
Net assets beginning of year	<u>1,716,668</u>	<u>1,476,535</u>	<u>17,958</u>	<u>15,081</u>	<u>1,734,626</u>	<u>1,491,616</u>	<u>16.29%</u>
Net assets end of year	<u>\$ 2,005,399</u>	<u>1,716,668</u>	<u>\$ 32,704</u>	<u>17,958</u>	<u>2,038,103</u>	<u>1,734,626</u>	<u>17.50%</u>

Local tax, local option sales and services tax and unrestricted state grants account for 72.41% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89.42% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$2,839,050 and expenses were \$2,550,319.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 1,586,642	1,499,637	5.80%	1,031,049	952,510	8.25%
Support services	791,773	706,686	12.04%	791,773	706,686	12.04%
Other expenses	171,904	251,658	-31.69%	87,755	177,268	-50.50%
Totals	<u>\$ 2,550,319</u>	<u>2,457,981</u>	<u>3.76%</u>	<u>1,910,577</u>	<u>1,836,464</u>	<u>4.04%</u>

- The cost financed by users of the District's programs was \$314,025.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$325,717.
- The net cost of governmental activities was financed with \$923,507 in local tax, \$165,107 in local option sales and services tax, \$1,057,140 in unrestricted state grants, \$49,445 in interest income and \$9,850 in other revenues.

### Business-Type Activities

Revenues of the District's business-type activities were \$124,394 and expenses were \$109,648. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Essex Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$690,529, above last year's ending fund balances of \$599,595.

### Governmental Fund Highlights

- The District's General Fund financial position changed from \$422,142 to \$494,946. This was due to the controlled spending by the District.
- The District's Capital Projects Fund increased \$14,350, to an ending fund balance of \$83,294. This was the result of a decrease in expenditures.
- The Special Revenue, Physical Plant and Equipment Levy fund balance decreased \$918 to a final fund balance of \$13,543.

### Proprietary Funds Highlights

The School Nutrition Fund net assets increased from \$17,958 at June 30, 2006 to \$32,704 at June 30, 2007.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$45,900 more than budgeted revenues, a variance of 1.57%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services area due to the timing of disbursements paid at year-end.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested \$1.5 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$98,998.

The original cost of the District's capital assets was \$3,194,552. Governmental funds account for \$3,136,936 with the remainder of \$57,616 in the School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$167,295 at June 30, 2007, compared to \$104,039 reported at June 30, 2006. This increase resulted primarily from the purchase of a bus, a van, and several computers during the year.

Figure A-6

	Capital Assets, Net of Depreciation										
	Governmental				Business-type		Total		Total		
	Activities				Activities		School District		Change		
	June 30,				June 30,		June 30,		June 30,		
	2007	2006			2007	2006	2007	2006	2006-07		
Land	\$	4,812	4,812		\$	0	0	\$	4,812	4,812	0.00%
Buildings		1,326,191	1,372,116			0	0		1,326,191	1,372,116	-3.35%
Land improvements		3,660	4,571			0	0		3,660	4,571	-19.93%
Machinery and equipment		157,367	93,752			9,928	10,287		167,295	104,039	60.80%
Total	\$	1,492,030	1,475,251		\$	9,928	10,287		\$ 1,501,958	1,485,538	1.11%

### Long-Term Debt

At June 30, 2007, the District had \$278,170 in other long-term debt outstanding. This represents a decrease of 38.5% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonded indebtedness payable of \$260,000 at June 30, 2007.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$18,170 at June 30, 2007.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 260,000	420,000	-38.1%
Early retirement	18,170	32,309	-43.8%
Totals	\$ 278,170	452,309	-38.5%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- Certified enrollment decreased by 4.9 students in the 2006-07 year. The District expects enrollment to stay steady in the future years.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact William Crilly, Superintendent, Essex Community School District, 111 Forbes Street, Essex, Iowa, 51638.

## BASIC FINANCIAL STATEMENTS

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 384,159	0	384,159
Other	859,239	23,302	882,541
Receivables:			
Property tax:			
Delinquent	15,558	0	15,558
Succeeding year	788,203	0	788,203
Income surtax	102,387	0	102,387
Accounts	47,094	355	47,449
Accrued interest:			
ISCAP(Note 4)	20,160	0	20,160
Inventories	0	1,209	1,209
Capital assets, net of accumulated depreciation(Note 5)	1,492,030	9,928	1,501,958
<b>TOTAL ASSETS</b>	<b>3,708,830</b>	<b>34,794</b>	<b>3,743,624</b>
<b>LIABILITIES</b>			
Accounts payable	30,963	1,736	32,699
Salaries and benefits payable	201,085	0	201,085
Accrued interest payable	1,377	0	1,377
ISCAP warrants payable(Note 4)	385,000	0	385,000
ISCAP interest payable(Note 4)	16,783	0	16,783
ISCAP unamortized premium	1,850	0	1,850
Deferred revenue:			
Succeeding year property tax	788,203	0	788,203
Unearned revenue	0	354	354
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	160,000	0	160,000
Early retirement payable	12,125	0	12,125
Portion due after one year:			
General obligation bonds payable	100,000	0	100,000
Early retirement payable	6,045	0	6,045
<b>TOTAL LIABILITIES</b>	<b>1,703,431</b>	<b>2,090</b>	<b>1,705,521</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,232,030	9,928	1,241,958
Restricted for:			
Market factor	780	0	780
Beginning teacher mentoring	1,115	0	1,115
Debt service	30,985	0	30,985
Capital projects	83,294	0	83,294
Management levy	13,808	0	13,808
Physical plant and equipment levy	13,543	0	13,543
Other special revenue purposes	35,783	0	35,783
Unrestricted	594,061	22,776	616,837
<b>TOTAL NET ASSETS</b>	<b>\$ 2,005,399</b>	<b>32,704</b>	<b>2,038,103</b>

SEE NOTES TO FINANCIAL STATEMENTS.



ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,197,535	166,914	214,415	(816,206)	0	(816,206)
Special instruction	139,147	2,157	14,952	(122,038)	0	(122,038)
Other instruction	249,960	144,954	12,201	(92,805)	0	(92,805)
	1,586,642	314,025	241,568	(1,031,049)	0	(1,031,049)
Support services:						
Student services	82,955	0	0	(82,955)	0	(82,955)
Instructional staff services	74,122	0	0	(74,122)	0	(74,122)
Administration services	340,349	0	0	(340,349)	0	(340,349)
Operation and maintenance of plant services	183,573	0	0	(183,573)	0	(183,573)
Transportation services	110,774	0	0	(110,774)	0	(110,774)
	791,773	0	0	(791,773)	0	(791,773)
Other expenditures:						
Facilities acquisitions	28,525	0	0	(28,525)	0	(28,525)
Long-term debt interest	12,394	0	0	(12,394)	0	(12,394)
AEA flowthrough	84,149	0	84,149	0	0	0
Depreciation(unallocated)*	46,836	0	0	(46,836)	0	(46,836)
	171,904	0	84,149	(87,755)	0	(87,755)
Total governmental activities	2,550,319	314,025	325,717	(1,910,577)	0	(1,910,577)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	109,648	63,132	60,609	0	14,093	14,093
Total	\$ 2,659,967	377,157	386,326	(1,910,577)	14,093	(1,896,484)
General Revenues and Transfers:						
General revenues						
Local tax for:						
General purposes				\$ 793,405	0	793,405
Capital outlay				17,401	0	17,401
Debt service				112,701	0	112,701
Local option sales and services tax				165,107	0	165,107
Unrestricted state grants				1,057,140	0	1,057,140
Unrestricted investment earnings				49,445	653	50,098
Other general revenues				9,850	0	9,850
Transfers				(5,741)	0	(5,741)
Total general revenues and transfers				2,199,308	653	2,199,961
Changes in net assets				288,731	14,746	303,477
Net assets beginning of year				1,716,668	17,958	1,734,626
Net assets end of year				\$ 2,005,399	32,704	2,038,103

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 384,159	0	384,159
Other	700,153	159,086	859,239
Receivables:			
Property tax			
Delinquent	12,105	3,453	15,558
Succeeding year	645,748	142,455	788,203
Income surtax	102,387	0	102,387
Accounts	8,577	38,517	47,094
Accrued interest:			
ISCAP(Note 4)	20,160	0	20,160
<b>TOTAL ASSETS</b>	<b>\$ 1,873,289</b>	<b>343,511</b>	<b>2,216,800</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 25,490	5,473	30,963
Salaries and benefits payable	201,085	0	201,085
ISCAP warrants payable(Note 4)	385,000	0	385,000
ISCAP interest payable(Note 4)	16,783	0	16,783
ISCAP unamortized premium	1,850	0	1,850
Deferred revenue:			
Succeeding year property tax	645,748	142,455	788,203
Income surtax	102,387	0	102,387
Total liabilities	<u>1,378,343</u>	<u>147,928</u>	<u>1,526,271</u>
Fund balances:			
Reserved for:			
Beginning teacher mentoring	1,115	0	1,115
Market factor	780	0	780
Debt service	0	30,985	30,985
Unreserved:			
General	493,051	0	493,051
Capital projects	0	83,294	83,294
Management levy	0	31,978	31,978
Physical plant and equipment levy	0	13,543	13,543
Other special revenue purposes	0	35,783	35,783
Total fund balances	<u>494,946</u>	<u>195,583</u>	<u>690,529</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,873,289</b>	<b>343,511</b>	<b>2,216,800</b>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 690,529
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	1,492,030
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	102,387
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(1,377)
Long-term liabilities, including general obligation bonds payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(278,170)
Net assets of governmental activites (page 13)	<u>\$ 2,005,399</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 737,289	180,085	917,374
Local option sales and service tax	0	165,107	165,107
Tuition	169,071	0	169,071
Other	72,431	144,019	216,450
State sources	1,281,532	183	1,281,715
Federal sources	88,941	0	88,941
Total revenues	2,349,264	489,394	2,838,658
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	1,166,152	23,804	1,189,956
Special instruction	139,147	0	139,147
Other instruction	103,281	144,379	247,660
	1,408,580	168,183	1,576,763
Support services:			
Student services	82,955	0	82,955
Instructional staff services	86,405	0	86,405
Administration services	332,780	7,569	340,349
Operation and maintenance of plant services	171,740	42,017	213,757
Transportation services	109,851	4,882	114,733
	783,731	54,468	838,199
Other expenditures:			
Facilities acquisitions	0	71,672	71,672
Long-term debt:			
Principal	0	160,000	160,000
Interest and fiscal charges	0	13,140	13,140
AEA flowthrough	84,149	0	84,149
	84,149	244,812	328,961
Total expenditures	2,276,460	467,463	2,743,923
Excess of revenues over expenditures	72,804	21,931	94,735
Other financing sources(uses):			
Transfer in	0	70,000	70,000
Transfer out	0	(75,741)	(75,741)
Proceeds from sale of property	0	1,940	1,940
Total other financing sources(uses)	0	(3,801)	(3,801)
Net change in fund balances	72,804	18,130	90,934
Fund balance beginning of year	422,142	177,453	599,595
Fund balance end of year	\$ 494,946	195,583	690,529

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17)	\$ 90,934
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:	
Depreciation expense	\$ (96,903)
Capital outlay expenditures	115,532
Loss on disposal of capital assets	<u>(1,850)</u> 16,779
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.	6,133
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Early Retirement	14,139
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.	160,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	<u>746</u>
Changes in net assets of governmental activities (page 14)	<u>\$ 288,731</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2007

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 23,302
Accounts receivable	355
Inventories	1,209
Capital assets, net of accumulated depreciation(Note 5)	9,928
Total assets	<u>34,794</u>
LIABILITIES	
Accounts payable	1,736
Unearned revenue	354
Total liabilities	<u>2,090</u>
NET ASSETS	
Invested in capital assets	9,928
Unrestricted	22,776
Total net assets	<u>\$ 32,704</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 63,132
TOTAL OPERATING REVENUES	<u>63,132</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	32,318
Benefits	5,553
Services	235
Supplies	69,319
Depreciation	2,095
Other	128
TOTAL OPERATING EXPENSES	<u>109,648</u>
OPERATING LOSS	<u>(46,516)</u>
NON-OPERATING REVENUES:	
State sources	1,520
Federal sources	59,089
Interest income	653
TOTAL NON-OPERATING REVENUES	<u>61,262</u>
Changes in net assets	14,746
Net assets beginning of year	<u>17,958</u>
Net assets end of year	<u>\$ 32,704</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 59,544
Cash received from miscellaneous operating activities	2,719
Cash payments to employees for services	(38,089)
Cash payments to suppliers for goods or services	(71,006)
Net cash used in operating activities	<u>(46,832)</u>
Cash flows from non-capital financing activities:	
State grants received	1,520
Federal grants received	52,476
Net cash provided by non-capital financing activities	<u>53,996</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(1,736)</u>
Cash flows from investing activities:	
Interest on investments	<u>653</u>
Net increase in cash and cash equivalents	6,081
Cash and cash equivalents at beginning of year	<u>17,221</u>
Cash and cash equivalents at end of year	<u>\$ 23,302</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (46,516)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	6,613
Depreciation	2,095
Increase in inventories	(173)
Increase in accounts receivable	(355)
Decrease in accounts payable	(7,764)
Decrease in salaries and benefits payable	(218)
Decrease in deferred revenue	(514)
Net cash used in operating activities	<u>\$ (46,832)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 23,302</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$6,613.

SEE NOTES TO FINANCIAL STATEMENTS.



ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2007

	Private Purpose Trust Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 54,087	6,116
LIABILITIES		
Due to other groups	0	6,116
NET ASSETS		
Restricted for scholarships	45,000	0
Unrestricted	9,087	0
	<u>\$ 54,087</u>	<u>0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Scholarship
Additions	
Local sources:	
Gifts and contributions	\$ 1,936
Interest income	3,010
Total additions	<u>4,946</u>
Deductions	
Instruction:	
Scholarships awarded	<u>1,600</u>
Change in net assets before other financing sources	3,346
Other financing sources:	
Transfer in	<u>5,741</u>
Change in net assets	9,087
Net assets beginning of year	<u>45,000</u>
Net assets end of year	<u>\$ 54,087</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Essex Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Essex, Iowa, and the predominate agricultural territory in a portion of Page and Montgomery Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Essex Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Essex Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Page and Montgomery County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District's proprietary fund is the School Nutrition Fund and Resale Fund, which are used to account for the District's food service operations and resale operations.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is

custodial in nature, assets equal liabilities, and does not involve measurement of results of operation.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and

delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20-50 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements in the support services functional area exceeded the amount budgeted.

#### (2) Cash and Pooled Investments

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments at June 30, 2007, are as follows:

Type	Amortized Cost
Diversified Portfolio	\$ 559,295



The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

**(3) Transfers**

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 70,000
Private Purpose Trust	Expendable Trust	5,741
Total		<u>\$ 75,741</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(4) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	\$ 0	14,845	0	12,154
2006-07B	1/26/07	1/25/08	239,388	5,272	240,000	4,592
2007-08A	6/28/07	6/27/08	144,771	43	145,000	37
Total			<u>\$ 384,159</u>	<u>20,160</u>	<u>385,000</u>	<u>16,783</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07B	\$ 0	100,000	100,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2006-07B	4.250%	5.315%
2007-08A	4.500%	5.455%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,812	0	0	4,812
Total capital assets not being depreciated	4,812	0	0	4,812
Capital assets being depreciated:				
Buildings	2,366,237	0	0	2,366,237
Land improvements	157,499	0	0	157,499
Machinery and equipment	573,200	115,532	80,344	608,388
Total capital assets being depreciated	3,096,936	115,532	80,344	3,132,124
Less accumulated depreciation for:				
Buildings	994,121	45,925	0	1,040,046
Land improvements	152,928	911	0	153,839
Machinery and equipment	479,448	50,067	78,494	451,021
Total accumulated depreciation	1,626,497	96,903	78,494	1,644,906
Total capital assets being depreciated, net	1,470,439	18,629	1,850	1,487,218
Governmental activities capital assets, net	\$ 1,475,251	18,629	1,850	1,492,030
Business-type activities:				
Machinery and equipment	\$ 56,648	1,736	768	57,616
Less accumulated depreciation	46,361	2,095	768	47,688
Business-type activities capital assets, net	\$ 10,287	(359)	0	9,928

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 21,718
Other		2,300
Support services:		
Instructional support		160
Operation and maintenance of plant		100
Transportation		25,789
		<u>50,067</u>
Unallocated depreciation		<u>46,836</u>
Total governmental activities depreciation expense		<u>\$ 96,903</u>
Business-type activities:		
Food services		<u>\$ 2,095</u>

#### (6) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 420,000	0	160,000	260,000	160,000
Early retirement	32,309	0	14,139	18,170	12,125
Total	<u>\$ 452,309</u>	<u>0</u>	<u>174,139</u>	<u>278,170</u>	<u>172,125</u>

#### General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of September, 2002			
	Interest Rates	Principal	Interest	Total
2008	3.10	% \$ 160,000	8,260	168,260
2009	3.30	100,000	3,300	103,300
Total		<u>\$ 260,000</u>	<u>11,560</u>	<u>271,560</u>

#### Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-nine and must have completed twenty-five years of continuous service to the District. Employees must complete an application, which is subject to be approval by the Board of Education. Early retirement benefits paid during the year ended June 30, 2007, totaled \$14,139. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

#### (7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS

provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$74,509, \$68,875, and \$65,422 respectively, equal to the required contributions for each year.

**(8) Risk Management**

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2007 were \$18,064.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$84,149 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**(10) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the support services function exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

ESSEX COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Fund Types Actual	Fund Type Actual		Original	Final	
Revenues:						
Local sources	\$ 1,468,002	63,785	1,531,787	1,496,942	1,496,942	34,845
Intermediate sources	0	0	0	4,000	4,000	(4,000)
State sources	1,281,715	1,520	1,283,235	1,270,710	1,270,710	12,525
Federal sources	88,941	59,089	148,030	145,500	145,500	2,530
Total revenues	2,838,658	124,394	2,963,052	2,917,152	2,917,152	45,900
Expenditures:						
Instruction	1,576,763	0	1,576,763	1,908,399	1,908,399	331,636
Support services	838,199	0	838,199	791,983	791,983	(46,216)
Non-instructional programs	0	109,648	109,648	146,000	146,000	36,352
Other expenditures	328,961	0	328,961	361,150	361,150	32,189
Total expenditures	2,743,923	109,648	2,853,571	3,207,532	3,207,532	353,961
Excess(deficiency) of revenues over(under) expenditures	94,735	14,746	109,481	(290,380)	(290,380)	399,861
Other financing sources, net	(3,801)	0	(3,801)	1,000	1,000	(4,801)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	90,934	14,746	105,680	(289,380)	(289,380)	395,060
Balance beginning of year	599,595	17,958	617,553	596,135	596,135	21,418
Balance end of year	\$ 690,529	32,704	723,233	306,755	306,755	416,478

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the support services function exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION



ESSEX COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2007

	Special Revenue Funds						Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Physical Plant & Equipment Levy	Student Activity	Total Special Revenue	Capital Projects	Debt Service	
ASSETS							
Cash and pooled investments	\$ 32,088	13,209	39,998	85,295	44,967	28,824	159,086
Receivables:							
Property tax:							
Current year delinquent	958	334	0	1,292	0	2,161	3,453
Succeeding year	50,000	17,455	0	67,455	0	75,000	142,455
Accounts	0	0	190	190	38,327	0	38,517
TOTAL ASSETS	\$ 83,046	30,998	40,188	154,232	83,294	105,985	343,511
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 1,068	0	4,405	5,473	0	0	5,473
Deferred revenue:							
Succeeding year property tax	50,000	17,455	0	67,455	0	75,000	142,455
	51,068	17,455	4,405	72,928	0	75,000	147,928
Fund balances:							
Reserved:							
Debt service	0	0	0	0	0	30,985	30,985
Unreserved:							
Undesignated	31,978	13,543	35,783	81,304	83,294	0	164,598
Total fund balances	31,978	13,543	35,783	81,304	83,294	30,985	195,583
TOTAL LIABILITIES AND FUND BALANCES	\$ 83,046	30,998	40,188	154,232	83,294	105,985	343,511

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
OTHER NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	Special Revenue Funds							Total
	Manage- ment Levy	Physical Plant and Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
REVENUES:								
Local sources:								
Local tax	\$ 49,983	17,401	0	0	67,384	0	112,701	180,085
Local option sales and service tax	0	0	0	0	0	165,107	0	165,107
Other	3,128	78	137,542	0	140,748	2,980	291	144,019
State sources	51	18	0	0	69	0	114	183
TOTAL REVENUES	53,162	17,497	137,542	0	208,201	168,087	113,106	489,394
EXPENDITURES:								
Current:								
Instruction:								
Regular instruction	23,804	0	0	0	23,804	0	0	23,804
Other instruction	0	0	144,379	0	144,379	0	0	144,379
Support services:								
Administration services	7,569	0	0	0	7,569	0	0	7,569
Operation and maintenance of plant services	9,597	20,355	0	0	29,952	12,065	0	42,017
Transportation services	4,882	0	0	0	4,882	0	0	4,882
Other expenditures:								
Facilities acquisitions	0	0	0	0	0	71,672	0	71,672
Long-term debt:								
Principal	0	0	0	0	0	0	160,000	160,000
Interest and fiscal charges	0	0	0	0	0	0	13,140	13,140
TOTAL EXPENDITURES	45,852	20,355	144,379	0	210,586	83,737	173,140	467,463
Excess(deficiency) of revenues over(under) expenditures	7,310	(2,858)	(6,837)	0	(2,385)	84,350	(60,034)	21,931
OTHER FINANCING SOURCES(USES):								
Transfer in	0	0	0	0	0		70,000	70,000
Transfer out	0	0	0	(5,741)	(5,741)	(70,000)	0	(75,741)
Proceeds from sale of property	0	1,940	0	0	1,940	0	0	1,940
TOTAL OTHER FINANCING SOURCES(USES)	0	1,940	0	(5,741)	(3,801)	(70,000)	70,000	(3,801)
Net change in fund balances	7,310	(918)	(6,837)	(5,741)	(6,186)	14,350	9,966	18,130
FUND BALANCES BEGINNING OF YEAR	24,668	14,461	42,620	5,741	87,490	68,944	21,019	177,453
FUND BALANCES END OF YEAR	\$ 31,978	13,543	35,783	0	81,304	83,294	30,985	195,583

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Speech	\$ 2,341	1,907	3,653	595
Drama	(587)	2,215	0	1,628
Music	11,512	155	11,667	0
Instrumental music	(7,200)	9,839	0	2,639
Vocal music	(10)	1,290	1,280	0
Athletics	503	45,687	43,331	2,859
Skate Fund	0	1,434	1,434	0
Junior high uniforms	277	0	277	0
JH VB tourn.	2,314	1,461	479	3,296
JH BB tourn.	2,928	2,221	2,320	2,829
Trophy case	500	0	500	0
Football fund	820	4,802	5,622	0
HS basketball	51	1,127	1,153	25
Athletics-girls	149	0	149	0
Softball girls	250	940	748	442
Elementary can drive	648	281	840	89
Class of 2006	2,274	0	2,274	0
Class of 2007	5,615	19,896	23,782	1,729
Class of 2008	131	12,820	9,653	3,298
Class of 2009	173	0	37	136
Class of 2010	(24)	34	10	0
Class of 2011	15	48	15	48
Class of 2012	0	53	0	53
Fine arts club	4	0	4	0
Pep club	929	769	514	1,184
Spanish club	35	0	35	0
School booster fund	346	0	346	0
E-Stars	1,018	1,615	2,324	309
Safety patrol	129	100	204	25
Claire McKinney music fund	0	375	0	375
Annual	7,159	7,160	9,390	4,929
Elementary	991	0	991	0
Industrial arts	1,941	1,970	1,321	2,590
Media center	1,083	0	442	641
Special projects	542	954	885	611
Special projects landscaping	(93)	2,806	2,713	0
National honor society	177	1,060	790	447
Pop fund	2,791	5,939	5,644	3,086
Box tops	0	372	40	332
Project class	1,893	4,800	6,300	393
Student council	995	3,412	3,212	1,195
Total	\$ 42,620	137,542	144,379	35,783

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
PRIVATE PURPOSE TRUST ACCOUNTS  
YEAR ENDED JUNE 30, 2007

	Claire McKinney Trust	Saunders Scholarship	Joan Hamilton Scholarship	Danielle Wallin Scholarship	ES&C Scholarship	Total
ASSETS						
Cash and pooled investments	\$ 990	22,601	21,319	7,460	1,717	54,087
LIABILITIES	0	0	0	0	0	0
NET ASSETS						
Restricted for scholarships	0	20,000	20,000	5,000	0	45,000
Unrestricted	990	2,601	1,319	2,460	1,717	9,087
	<u>\$ 990</u>	<u>22,601</u>	<u>21,319</u>	<u>7,460</u>	<u>1,717</u>	<u>54,087</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
COMBINING SCHEDULE OF CHANGES IN  
FIDUCIARY NET ASSETS  
PRIVATE PURPOSE TRUST ACCOUNTS  
YEAR ENDED JUNE 30, 2007

	Claire McKinney Trust	Saunders Scholarship	Joan Hamilton Scholarship	Danielle Wallin Scholarship	ES&C Scholarship	Total
Additions:						
Gifts and contributions	\$ 990	0	0	0	946	1,936
Interest	0	1,324	1,273	413	0	3,010
Total additions	990	1,324	1,273	413	946	4,946
Deductions:						
Scholarships	0	500	600	0	500	1,600
EXCESS OF ADDITIONS OVER DEDUCTIONS	990	824	673	413	446	3,346
Other financing sources:						
Transfer in	0	1,777	646	2,047	1,271	5,741
EXCESS OF ADDITIONS AND OTHER FINANCING SOURCES OVER DEDUCTIONS	990	2,601	1,319	2,460	1,717	9,087
Balance beginning of year	0	20,000	20,000	5,000	0	45,000
Balance end of year	\$ 990	22,601	21,319	7,460	1,717	54,087

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUND  
YEAR ENDED JUNE 30, 2007

	Beginning Balance	Increases	Decreases	Ending Balance
<b>CORE SCHOOL BOOSTER</b>				
Assets:				
Cash and other investments	\$ 242	0	0	242
Liabilities:				
Due to other groups	\$ 242	0	0	242
<b>SUMMER RECREATION</b>				
Assets:				
Cash and other investments	\$ 4,767	5,703	6,547	3,923
Liabilities:				
Due to other groups	\$ 4,767	5,703	6,547	3,923
<b>WELLNESS PROGRAM</b>				
Assets:				
Cash and other investments	\$ 329	0	138	191
Liabilities:				
Due to other groups	\$ 329	0	138	191
<b>NURSE FUND</b>				
Assets:				
Cash and other investments	\$ 460	899	747	612
Liabilities:				
Due to other groups	\$ 460	899	747	612
<b>DEFIBRILLATOR FUND</b>				
Assets:				
Cash and other investments	\$ 1,095	0	0	1,095
Liabilities:				
Due to other groups	\$ 1,095	0	0	1,095
<b>TEACHER'S BOOK FUND</b>				
Assets:				
Cash and other investments	\$ 53	0	0	53
Liabilities:				
Due to other groups	\$ 53	0	0	53
<b>TOTAL</b>				
Cash and other investments	\$ 6,946	6,602	7,432	6,116
Liabilities:				
Due to other groups	\$ 6,946	6,602	7,432	6,116

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 1,082,481	1,088,623	1,059,879	1,162,114
Tuition	169,071	133,075	121,086	153,736
Other	216,450	254,312	176,562	143,036
Intermediate sources	0	0	3,174	0
State sources	1,281,715	1,121,983	1,038,057	1,060,391
Federal sources	88,941	96,413	95,460	108,576
Total	<u>\$ 2,838,658</u>	<u>2,694,406</u>	<u>2,494,218</u>	<u>2,627,853</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,189,956	1,117,705	1,094,300	1,023,146
Special instruction	139,147	134,904	138,480	167,814
Other instruction	247,660	245,153	212,114	184,216
Support services:				
Student services	82,955	69,713	42,331	24,112
Instructional staff services	86,405	51,631	63,508	34,772
Administration services	340,349	303,500	284,193	253,979
Operation and maintenance of plant services	213,757	184,159	155,805	139,977
Transportation services	114,733	94,646	77,486	97,851
Other expenditures:				
Facilities acquisition	71,672	154,069	117,703	38,705
Long-term debt:				
Principal	160,000	155,000	170,127	154,251
Interest and other charges	13,140	16,937	21,394	24,215
AEA flowthrough	84,149	74,390	78,350	73,674
Total	<u>\$ 2,743,923</u>	<u>2,601,807</u>	<u>2,455,791</u>	<u>2,216,712</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

### Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the  
Essex Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Essex Community School District of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 27, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Essex Community School District internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Essex Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Essex Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Essex Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Essex Community School District's financial statements that is more than inconsequential will not be prevented or detected by Essex Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Essex Community School District's internal control.



Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

#### Compliance and Other Matters

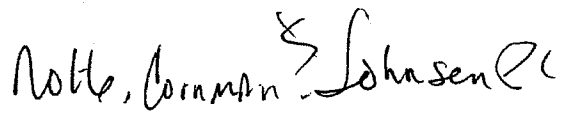
As part of obtaining reasonable assurance about whether Essex Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Essex Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Essex Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Essex Community School District and other parties to whom Essex Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Essex Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

March 27, 2008

ESSEX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The cash receipts journal for child nutrition is done by either the high school secretary or the elementary secretary. Activities receipts are counted by the gate or activity sponsor before they are dropped off at the bank. The board secretary then receives the bank bag from the bank and the deposit is completed. General Fund deposits are also done by the board secretary, but most of these are direct deposits to the bank and the board secretary records the deposit within the accounting system. Yes, we are limited by our number of employees and are very aware of the need for accountability for all money received.

Conclusion - Response accepted.

- I-B-07 Student Activity Fund - During our audit issues arose about the properness of certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Donations from Target and Box Tops for Education were recorded in the Student Activity Fund. These donations do not specify the purpose, other than instructional supplies;

therefore, they should be receipted into the General fund for use in all instructional supplies/services.

Response - Donations from Target and Box Tops for Education have been transferred to the General Fund.

Conclusion - Response accepted.

ESSEX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting

- II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, exceeded the amount budgeted in the support services area.

Recommendation-The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will watch the support service area for exceeding the amount budgeted more carefully.

Conclusion - Response accepted.

- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-07 Business Transactions - No business transactions between the District and District officials were noted.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

- II-J-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - We have requested Bank Iowa make copies of both sides of the returned check in the future.

Conclusion - Response accepted.